

Capitalization Threshold Survey Results

FMSIC Meeting

November 18, 2003

Hyatt Regency Bethesda Hotel

Bethesda, MD

What level do you suggest for the capitalization threshold?

ANL	\$50K or greater
BNL	Retain present level of \$25K
BWXT Y-12	\$100K
FERMI	\$100K
INEEL	\$50K or \$100K
LLNL	\$50K and possibly \$100K with further analysis
PNNL	\$100K
SNL	

What is your current Fixed Asset value, Net Book value, and number of capital property items?

	Fixed Assets	Net Book	# Cap Items
ANL	\$302,552,059	\$82,678,864	2707
BNL	\$1,595,000,00	\$995,000,000*	7690*
BWXT Y-12	\$1,804,485,000	\$732,487,000	4245
FERMI	\$1,402,639,834	\$474,033,824	2032
INEEL	\$1,948,000,000	\$45,000,000	3665
PNNL	\$238,900,000	\$159,000,000	364
SNL	\$1,822,000,000	\$755,000,000	7812

At the \$50K and \$100K levels, what percentage of the above values/items would be reported?

	50K Value	50K Items	100K Value	100K Items
ANL	77.69%		22.31%	
BNL	99.1%	32.2%	96.0%	19.3%
BWXT Y-12	99.06%	67.00%	97.46%	43.00%
FERMI	98.00%	61.00%	96.00%	43%
INEEL	98.00%	60%	93.00%	36.00%
LLNL	98.00%	51%	96.00%	27.00%
PNNL	80.00%	79.67%	50.00%	50.27%
SNL	87.00%	47.00%	82.00%	29.00%

What issues arise for your organization with raising the capitalization threshold?

ANL

BNL

*The arguments supporting this effort are understood. Since the capital level has not been changed since 1997, inflationary erosion has occurred. Additionally, Laboratories could theoretically reduce the number of line items that are maintained and tracked within controlled inventories. Last, while not discussed specifically at our meeting, a higher capital limit has the benefit of additional operating funds flexibility.

However, these benefits are largely convenience and flexibility. As we discussed, there is little likelihood that any Laboratory will actually reduce inventory tracking levels in the current climate. Thus, there will be little, if any, actual operating cost reductions as a result.

Conversely, at least two Laboratories, BNL and ANL, will be significantly hurt by this proposed change. In the case of Brookhaven, for the past several years, approximately 75% of our GPE line items and over 35% of their value falls below \$100,000. The impact of a capital limit of \$100,000 would require that these costs be borne by overhead operating funds. This additional G&A cost would be untenable, particularly in the face of the extreme budgetary pressures in recent years that will continue into the foreseeable future. Because it is unlikely that BNL would be able to combine GPE procurements to meet a \$100,000 capital level, we expect that our Landlord (Office of Science) GPE funds could be markedly reduced. There is no viable argument or assurance that such a

reduction would result in additional research program funding for the Laboratory, given recent experience with waste management funding.

The bottom line is that this move, while attractive as a matter of convenience and flexibility, but with little actual cost savings, for the larger, more highly NNSA-funded Laboratories who have relatively little Landlord capital funding, carries a substantial impact on Office of Science Laboratories who have a larger portion of direct-funded capital.

BNL believes that it is not appropriate for FMSIC to request a policy change by the DOE that would be substantially detrimental to a portion of its membership, particularly absent a well-identified set of cost or other tangible benefits.

BWXT Y-12

None.

FERMI

Potential audit issue but probably not at the Lab's current funding levels given the percentage of total acquisition value that would continue to be capitalized.

INEEL

We will lose financial tracking of some items that will no longer be classified as assets. This is not an impact for us.

PNNL

Raising the capitalization thresholds would have a minimum impact on Property Accounting, and even less on Property Management. Property Management is regulated by each contractor's contract which generally invoke CFR (etc). The CFR and associated property regulations would continue with the guidance of tagging/tracking property at the \$5K threshold. There may also be a decreased in flexibility regarding PNNL's use of GRE and other capital sources of funds. A higher threshold results in fewer available options within the GRE pool. This assumes the threshold is raised for all assets (real & personal).

SNL

The items that would be retired from the capital list with a new threshold would all be equipment, so those asset types would decline sharply. Only a few mobile offices are below the \$50k threshold for Real Property. Because of the way Oracle works, we might have to renumber all of those pieces of equipment and that would be a considerable amount of work.

What benefits do you anticipate with raising the threshold?

ANL

ANL agrees that raising the current threshold at least to \$50K would result in administrative savings - at \$50K, ANL would capitalize 52.01% fewer items but only incur a reduction in fixed asset value of 16.48%.

BNL

BWXT Y-12

A decrease in BCP/FIN Plan change activity related to moving expense money to GPE Capital to procure minor items of equipment resulting in lower cost of operations. Less effort/ lower cost related to documentation of Capital procurements in both the Capital Program and Capital Accounting.

Less delays in the procurement of unexpected (unplanned) minor items of equipment, which are in general replacements for items that have failed during production operations. A decrease in BCP/FIN Plan change activity related to moving expense money to GPE Capital to procure minor items of equipment resulting in lower cost of operations.

Less effort/ lower cost related to documentation of Capital procurements in both the Capital Program and Capital Accounting.

Less delays in the procurement of unexpected (unplanned) minor items of equipment, which are in general replacements for items that have failed during production operations.

FERMI

Portion of an FTE (est. 25%) in Accounting could be diverted to other value-added tasks. In addition to the specific questions on capitalization we would like to see some effort made to bring the property management "control level" (equipment inventory threshold) into some consistency with the capitalization level.

Currently, the inventory control level is \$5k and raising it to the \$100k we think is appropriate for capitalization is probably too big a jump at one time but an increase to \$25k seems reasonable. I recognize that this is seen by DOE as a property issue and not strictly a financial issue but now that property is formally in the CFO's office maybe we can attack this issue. If not now maybe in the near future.

INEEL

We don't have to financially capitalize and track as much. However, we still have the physical tracking responsibilities. It would be nice to make the requirement for both financial and physical tracking.

LLNL

Raising the capitalization threshold to \$50,000 would result in a significant effort savings for Accounting functions, such as capitalizations, reconciliations, and funding determinations. In addition, Budget and Programmatic staff would be involved in fewer funding realignments between operating and capital funding. The Laboratory Programs would have fewer accounts and budgets to maintain. Smaller Institutional General

Purpose Equipment purchases and Institutional General Plant Projects would no longer be needed, changing the focus to projects of more significance.

PNNL

Restricted to 'real' property an increase in the capitalization threshold would allow the Laboratory more flexibility in dealing with maintenance and infrastructure projects. On the top end little or no impact for projects equal to or exceeding the threshold.

SNL

There would be a savings in time spent on asset record keeping and funding of capital equipment purchases.